

DECEPTION PASS STATE PARK

ACCOMMODATIONS ALTERNATIVES

Phase 1 Financial Analysis

Three development and financing options have been identified for evaluation in Phase 1 of the Deception Pass State Park Accommodations Study. The three options have been subjected to a financial evaluation to determine which elements and options are feasible, what conditions are necessary to provide for feasibility, and whether there is sufficient financial incentive to attract private investment. This report documents the results of the financial analysis and is organized in two sections:

Method

Results and Conclusions

METHOD

Overview

The financial feasibility determination is based on a comparison of return on investment to required rates for investments of comparable risk. (This comparison is equivalent to the comparison in the preliminary market and financial analysis. In that analysis, developer profit is calculated assuming a target annual return and compared to a target rate of 12%. In this analysis an annual return is calculated assuming a 12% target developer profit.) The total estimated capital cost is allocated among public and private participants according to the distribution necessary to assure the private participants a target rate of return. No lease payments are assumed. Only revenues and costs associated with new development are considered. In instances where an existing revenue stream is lost because facilities are replaced, only the net change in income is shown.

Options

Option A: All developments would be constructed and operated by State Parks.

Sunrise/Cornet Bay—The ELC function at the Cornet Bay sub-area is to remain but all structures, other than CCC-era remnants, would be replaced. A centrally located complex of dining/ F&B and meeting/classroom space to be sharable with a rebuilt and expanded high-quality RV park would also be constructed. The Administrative/Maintenance base would be relocated in the northwest corner at the Island Grill site (true of all options).

Bowman Bay and West Beach – No new developments.

East Cranberry – Construction of a New Visitor Orientation Center with re-aligned entrance roadway.

Option B: All developments, other than the orientation center, would be constructed and operated by non-state parks entity(ies).

Sunrise/Cornet Bay: Development of principally an RV campground, with associated cabins of sufficient number to accommodate groups of 80 people. Cabins would be reservable for groups during off-peak times

Bowman Bay Lodge: Identify lodge location and attributes that would maximize the financial return, consistent with overall park natural and cultural resource management objectives. The attributes would include conference facilities and dining facilities, each of which would be analyzed for financial contribution to the entire project. Assure day use recreational access across site.

West Beach – No new development.

East Cranberry – Construction of a new Visitor Orientation Center, with re-aligned entrance roadway, plus cabins in area north of CCC cultural landscape with re-aligned roadway.

Option C: All developments would be constructed and operated by non-state parks entity(ies), other than orientation center and non-RV East Cranberry campsites.

Sunrise/Cornet Bay: Development of an RV campground over entire site, with highway-oriented uses developed as appropriate. All development would be constructed and operated by private sector.

Bowman Bay Cabins: Identify cabin locations and attributes that would maximize the financial return, consistent with overall park natural and cultural resource management objectives. Assure day use recreational access across site.

West Beach – Sleeping Cranberry/Cranberry Cabins – The site at West Beach was deemed suitable for cabins in the woods (but not a lodge on the beach) – this might displace up to 50% of the existing tent camping to the east. These tent camping sites (or cabins) could be replaced at the East Cranberry Lake site.

East Cranberry – Construction of a New Visitor Orientation Center, with re-aligned entrance roadway, plus non-RV campsites in area north of CCC cultural landscape with re-aligned roadway.

Assumptions

Development costs are estimated for infrastructure upgrades and on-site costs for new facilities. The infrastructure upgrade costs were estimated by MacLeod Record and are shown for each area in each option. The development costs for the new facilities are estimated on a unit cost basis with an overall factor applied to reflect soft costs. Operating assumptions include occupancy rates, daily rental rates, factors for other income as a percent of rental revenue (to reflect food and beverage sales, merchandise sales, equipment rental etc.), operating expense as a percent of total revenue, and lease payments for private facilities within the Park. No lease payments are assumed for this analysis. The cost and revenue assumptions are summarized in Table 1.

The assumptions can be further described as follows.

Rental rates are assumed at current market levels as described in the preliminary market and financial report. For State Parks operated RV campgrounds, revenues and costs are based on current Park rates and cost experience. For example, State Parks has recently developed fully serviced campsites at Sun Lakes and Grayland State parks at approximately \$55,000 per space. Marshall Valuation Services identifies cost rates for excellent quality RV parks at \$14,000 per space plus the cost of recreation buildings.

The required annual return on development cost is set at levels identified in investor surveys:

Cabins: 12%

RV Park: 11%

Lodge: 12%

RESULTS AND CONCLUSIONS

The results are summarized for each of the three options and overall in Tables 2 through 5.

Option A provides a 4.4% annual return to State Parks on its incremental investment of \$7.9 million.

Option B provides the necessary private annual return on investment of 12.0%. State Parks would assume \$6.9 million of the total capital cost of \$24.5 million.

Option C provides the necessary private annual return on investment of 11.3%. (The necessary return is less than that for Option B because of the relative risk of the different uses.) State Parks would assume \$4.2 million of the total capital cost of \$18.1 million.

Options B and C provide additional recreation facilities and experiences beyond those in A with a lower investment. However, State Parks would have to contribute a portion of the total cost of the new facilities in B and C if the remaining private investment is to be feasible.

Table 1
Revenue and Cost Assumptions

	Cabins	ELC Commons	RV Park State	Private	Lodge
Capital Cost Assumptions					
Construction Cost (/ SF or unit)	50,000	100.00	43,000	14,000	70,000
FF&E (/unit)	10,000	20.00		2,800	13,500
Soft Costs (% of constr)	30%	30%	30%	30%	30%
Entrepreneurial Profit (%)				15%	15%
Operating Cost Assumptions					
Occupancy	55%	55%	40%	40%	65%
Unit Sales					
Average Rental Rate	70.00	500.00	27.00	35.00	105
Other Operating Inc (% of rev.)	20%		25%	25%	30%
Operating Expense (% of rev.)	50%	50%	75%	50%	69%
Lease Payment (% of Gross Rev.)					

Table 2
Summary of Financial Analysis
Option A

Description	Sunrise/ Cornet Bay	Bowman Bay	East Cranberry	West Beach	Combined
Primary Use	ELC/Cabins/RV	No Change	No Change	No Change	
Responsibility	State Parks	State Parks	State Parks	State Parks	
Units	27/62	No Change	No Change	No Change	
Capital Cost Estimate					
Construction Cost	4,516,000		-		4,516,000
FF&E	370,000		-		370,000
Subtotal	4,886,000		-		4,886,000
Soft Costs	1,465,800		-		1,465,800
Subtotal	6,351,800		-		6,351,800
Infrastructure	1,540,520		-		1,540,520
Subtotal	7,892,320		-		7,892,320
Entrepreneurial Profit	-		-		-
Total Development Cost	7,892,320		-		7,892,320
Cost Share					
Public	7,892,320		-		7,892,320
Private	-		-		-
Operating Income					
Rental Revenue	724,197		-		724,197
Other Revenue	176,322		-		176,322
Total Revenue	900,519		-		900,519
Operating Expense	555,441		-		555,441
Operating Income	345,078		-		345,078
Private Return					
Operating Income	-		-		-
Lease Payment	-		-		-
Net Income	-		-		-
Annual Return (% of Investment)	0.0%				
Required Return	0.0%				0.0%
Public Return					
Operating Income	345,078		-		345,078
Lease Payment	-		-		-
Total Income	345,078		-		345,078
Annual Return (% of Investment)	4.4%				4.4%

Table 3
Summary of Financial Analysis
Option B

Description	Sunrise/ Cornet Bay	Bowman Bay	East Cranberry	West Beach	Combined
Primary Use	Cabins/RV	Lodge	Cabins	No Change	
Responsibility	Private	Private	Private	State Parks	
Units	27/160	90/85	32		
Capital Cost Estimate					
Construction Cost	4,090,000	6,300,000	1,600,000		11,990,000
FF&E	818,000	1,215,000	320,000		2,353,000
Subtotal	4,908,000	7,515,000	1,920,000		14,343,000
Soft Costs	1,472,400	2,254,500	576,000		4,302,900
Subtotal	6,380,400	9,769,500	2,496,000		18,645,900
Infrastructure	1,625,220	315,000	705,300		2,645,520
Subtotal	8,005,620	10,084,500	3,201,300		21,291,420
Entrepreneurial Profit	1,200,843	1,512,675	480,195		3,193,713
Total Development Cost	9,206,463	11,597,175	3,681,495		24,485,133
Cost Share					
Public	2,266,841	3,323,081	1,339,412		6,929,334
Private	6,939,622	8,274,094	2,342,083		17,555,799
Operating Income					
Rental Revenue	1,297,393	2,242,013	449,680		3,989,085
Other Revenue	367,388	960,863	112,420		1,440,670
Total Revenue	1,664,780	3,202,875	562,100		5,429,755
Operating Expense	832,390	2,209,984	281,050		3,323,424
Operating Income	832,390	992,891	281,050		2,106,331
Private Return					
Operating Income	832,390	992,891	281,050		2,106,331
Lease Payment	-	-	-		-
Net Income	832,390	992,891	281,050		2,106,331
Annual Return (% of Investment)	12.0%	12.0%	12.0%		12.0%
Required Return	12.0%	12.0%	12.0%		12.0%
Public Return					
Operating Income	-	-	-		-
Lease Payment	-	-	-		-
Total Income	-	-	-		-
Annual Return (% of Investment)	0.0%	0.0%	0.0%		0.0%

Table 4
Summary of Financial Analysis
Option C

Description	Sunrise/ Cornet Bay	Bowman Bay	East Cranberry	West Beach	Combined
Primary Use	RV/Hwy. Comm.	Cabins	Camping	Cabins	
Responsibility	Private	Private	State Parks	Private	
Units	300/15,000 SF	21	35	21	
Capital Cost Estimate					
Construction Cost	5,700,000	1,050,000	1,505,000	1,050,000	9,305,000
FF&E	1,090,000	210,000	-	210,000	1,510,000
Subtotal	6,790,000	1,260,000	1,505,000	1,260,000	10,815,000
Soft Costs	2,037,000	378,000	451,500	378,000	3,244,500
Subtotal	8,827,000	1,638,000	1,956,500	1,638,000	14,059,500
Infrastructure	653,270	493,200	-	822,200	1,968,670
Subtotal	9,480,270	2,131,200	1,956,500	2,460,200	16,028,170
Entrepreneurial Profit	1,422,041	319,680	-	369,030	2,110,751
Total Development Cost	10,902,311	2,450,880	1,956,500	2,829,230	18,138,921
Cost Share					
Public	-	913,888	1,956,500	1,292,238	4,162,626
Private	10,902,311	1,536,992	-	1,536,992	13,976,295
Operating Income					
Rental Revenue	1,728,000	295,103	-	295,103	2,318,205
Other Revenue	511,000	73,776	-	73,776	658,551
Total Revenue	2,239,000	368,878	-	368,878	2,976,756
Operating Expense	1,031,750	184,439	-	184,439	1,400,628
Operating Income	1,207,250	184,439	-	184,439	1,576,128
Private Return					
Operating Income	1,207,250	184,439	-	184,439	1,576,128
Lease Payment	-	-	-	-	-
Net Income	1,207,250	184,439	-	184,439	1,576,128
Annual Return (% of Investment)	11.1%	12.0%	0.0%	12.0%	11.3%
Required Return	11.0%	12.0%	0.0%	12.0%	11.3%
Public Return					
Operating Income	-	-	-	-	-
Lease Payment	-	-	-	-	-
Total Income	-	-	-	-	-
Annual Return (% of Investment)	-	0.0%	0.0%	0.0%	0.0%

Table 5
Summary of Financial Analysis
All Options

	Option A	Option B	Option C
Description			
Primary Use			
Responsibility			
Units			
 Capital Cost Estimate			
Construction Cost	4,516,000	11,990,000	9,305,000
FF&E	370,000	2,353,000	1,510,000
Subtotal	4,886,000	14,343,000	10,815,000
Soft Costs	1,465,800	4,302,900	3,244,500
Subtotal	6,351,800	18,645,900	14,059,500
Infrastructure	1,540,520	2,645,520	1,968,670
Subtotal	7,892,320	21,291,420	16,028,170
Entrepreneurial Profit	-	3,193,713	2,110,751
Total Development Cost	7,892,320	24,485,133	18,138,921
 Cost Share			
Public	7,892,320	6,929,334	4,162,626
Private	-	17,555,799	13,976,295
 Operating Income			
Rental Revenue	724,197	3,989,085	2,318,205
Other Revenue	176,322	1,440,670	658,551
Total Revenue	900,519	5,429,755	2,976,756
Operating Expense	555,441	3,323,424	1,400,628
Operating Income	345,078	2,106,331	1,576,128
 Private Return			
Operating Income	-	2,106,331	1,576,128
Lease Payment	-	-	-
Net Income	-	2,106,331	1,576,128
Annual Return (% of Investment)	0.0%	12.0%	11.3%
Required Return	0.0%	12.0%	11.3%
 Public Return			
Operating Income	345,078	-	-
Lease Payment	-	-	-
Total Income	345,078	-	-
Annual Return (% of Investment)	4.4%	0.0%	0.0%